



# Committee On Finance

Max Baucus, Chairman

**NEWS RELEASE**

<http://finance.senate.gov>

**For Immediate Release**  
**Thursday April 11, 2002**

Contacts: Michael Siegel, Lara Birkes  
202-224-4515

STATEMENT BY CHAIRMAN MAX BAUCUS  
SENATE FINANCE COMMITTEE  
"SCHEMES, SCAMS, AND CONS"  
(As Prepared)

As the April 15th tax filing deadline approaches, Americans will sit down at the kitchen table, or at their home computer, and figure out their taxes. Sure, they'll grumble. We all think taxes are too high. We all think the forms and calculations are too complex. But, by and large, with quiet patriotism, average Americans will step up and pay their fair share of taxes. As a result, our government will have the resources to defend our shores, educate our children, provide a clean environment, improve highways, and help provide for seniors and for those suffering through hard times. In return, the American people expect two things. First, they expect the IRS to treat them decently. They want their privacy to be respected. They want forms and instructions that they can understand. They want to be able to call the local IRS office and get a quick and courteous answer to a simple question. When there's a disagreement about how much they owe, they want a fair opportunity to explain their point of view. Make no mistake about it, there have been serious problems in this area. And there's a lot more to do, especially to make the Tax Code simpler. But, under the leadership of this Committee, we've made progress. We've protected taxpayer rights, and we've reformed the IRS.

Americans also expect something else. At the same time that they pay their own fair share, they expect everyone else who enjoys the benefits of this great country to also pay their fair share. Everyone should help pull the wagon, from the richest corporation in New York or Houston to the guy down the street. Otherwise, we'll reach the point where honest taxpayers will feel like chumps, and the whole system of voluntary compliance will break down. That's where today's hearing comes in. A few weeks ago, we heard about sophisticated techniques that some corporations are using to avoid taxes. We heard about aggressive tax shelters that have no economic substance. We even heard how one tax advisor told her corporate clients that they might want to "put profits ahead of patriotism," abandon their U.S. citizenship, and move to a foreign tax haven. In that case, a solution will require some changes in law, and I am working with Senator Grassley on two bills that would do just that.

Today's hearing will focus on another part of the problem, which is just as important. We may be seeing a dramatic rise in flagrant, flat-out cheating. We're not talking about gray areas, about close calls, about honest people making honest mistakes. We're not talking about people fudging a little on the margin. We're talking about thousands and maybe even millions of people remaining right here in this country but shifting their income to Bermuda, the Cayman Islands, or some other tax haven, and then hiding their income from the IRS. We're also talking about slick promoters who trick people into thinking that they don't have to pay taxes, because of some bogus exemption, deduction, or credit. They prey on formerly law-abiding taxpayers, doctors, lawyers, small business owners, ordinary folks. The only good thing to say about these promoters is they don't discriminate. They perpetrate equal opportunity frauds. Their targets are people across all economic, social, and racial lines. When the trap is set, the promoters charge their fee and skip town, leaving their unsuspecting victims holding the bag when the IRS finally comes around to collect. In these cases, we don't need new laws. We need better enforcement of the laws that are already on the books.

Let me say more about what is probably the most troubling issue, offshore accounts. A year ago, under the leadership of Chairman Grassley, we had an initial hearing. Commissioner Rossotti testified, along with several private sector witnesses. We heard alarming news about wealthy taxpayers using foreign trusts to hide their income. The IRS estimates that there are 1 to 2 million offshore accounts held by Americans in tax haven countries. But only about 170,000 of these accounts have reported on income tax returns. The clear implication is that, in many cases, the accounts are being used to evade taxes. The total amount of revenue lost could be as high as \$70 billion. And that, of course, has to be made up by honest taxpayers.

At last year's hearing, we asked the IRS to take a closer look at this problem. Today, we'll get a progress report, and we'll hear what steps the IRS is taking. We also will hear from witnesses who sought, listened to, and took the wrong advice. These witnesses are presently paying the price – a couple of them with their liberty. While we don't condone what they did, we appreciate their willingness to appear before the Committee and explain to us what happened and why. This is not an easy time for any of them. They are appearing because they want to warn others that tax cheating is risky and can have significant, real-life consequences. Hopefully, their stories can serve as a warning to others.

One final point, some have suggested that this committee swings like a pendulum. A few years ago, we said that the IRS was being too tough. Now, the pendulum is swinging in the other direction, and we're saying that the IRS isn't tough enough. I don't see it that way, not at all. This is not an "either/or" situation. We do not have to choose between protecting the rights of taxpayers and properly enforcing the law. These concepts are not mutually exclusive; they are different sides of the same coin.

Let me go back to the average American citizen sitting at the kitchen table. As she fills out her tax return and pays the taxes that support the government, that citizen has a perfect right to hold her government to a standard of basic competence. The IRS

should be able to take a fair and respectful approach to honest taxpayers and, at the same time, take a hard line with con artists who are engaged in flagrant violations of the law. In fact, the American taxpayer expects nothing less.